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**HF 651** – Property Assessment (LSB2693HV)

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Fiscal Note Version – New

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**Description**

**House File 651** relates to the Property Assessment Appeal Board (PAAB), the property tax assessment and appeal process, the composition of local conference boards, and the legal counsel available to a conference board. The changes to the property tax assessment and appeal process are effective for property assessments on or after January 1, 2018 (assessment year 2018). The Bill:

- Repeals the current PAAB sunset date of July 1, 2021.
- Requires that the relevant assessor's office pay a portion of the PAAB or district court appeal costs of the property owner in certain instances.
- Makes changes to the burden of proof in property assessment appeals. The changes shift the burden away from the property owner to the assessor's office.
- Increases the voting membership of local conference boards by adding four elected public members to each conference board. A conference board serves as the governing board for the assessor's office.
- Expands the duties of local assessors in even-numbered assessment years by requiring the reassessment of individual properties in certain circumstances.
- Removes a limit that applies to the grounds upon which a property owner or taxpayer may protest a property assessment, by expanding the grounds to protests of even-numbered year assessments.
- Subjects the authority of a conference board to hire special counsel to assist with property assessment appeal cases, to review and approval by the city legal department or county attorney.

**Background – Property Assessment Appeal Board**

Operating under the auspices of the Department of Revenue (DOR), the PAAB was established in 2005 pursuant to **House File 847** (Property Tax Assessment Changes). The legislation included a future repeal of the PAAB effective July 1, 2013, which was amended in 2013 to extend the future repeal date to July 1, 2018. In 2015, the future repeal provision was delayed to July 1, 2021. The PAAB conducts administrative hearings on contested cases to review any final action of a local property assessment board of review relating to protests of property assessment, property valuation, or application of equalization orders.

For FY 2017, the PAAB estimates staffing and operating costs will total approximately \$906,000. Board staffing includes three board members, two attorneys, and one administrative assistant. The PAAB receives funding as a part of the General Fund appropriation to the DOR.

**Background – Assessor's Office**

There are 99 county and eight city assessors in Iowa. Each assessor's office is funded through a property tax levy that applies to all taxed property within the assessment area. The statewide average assessor rate for FY 2017 was \$0.38 per \$1,000 of taxed value, and the assessor levies ranged from \$0.16 per \$1,000 (Dickinson County) to \$0.75 per \$1,000 (Decatur County). For FY 2017, the total amount of property tax revenue raised through assessor levies was \$62.7

million. Of that amount, \$58.8 million funded the 107 assessor offices and \$3.9 million was diverted to Tax Increment Financing.

### **Background – Assessment and Equalization**

Assessors are to assess industrial, commercial, residential, and multiresidential property at each individual property's fair market value. Agricultural property is also assessed, but the assessed value is based on an estimate of the productivity value of the land and agricultural buildings. The assessment appeal process is available to owners of assessed property where the owner contends the assessment is not correct. Most often, the owner's contention is that the assessment is too high. At the behest of the property owner, the assessor may adjust the initial assessment. The owner may also protest the assessment to the local board of review, the PAAB, and to the district court.

The total assessments within each assessment area for commercial, residential, and agricultural classes are, individually as classes, subject to equalization every odd-numbered assessment year. The equalization process is administered by the DOR. The equalization process ensures that the total value of all property located within a property class is appropriate. The equalization process does not ensure that the assessed value of each individual property is appropriate.

The equalization process compares the sales price of sold properties within each assessor area to the time-adjusted assessed value at the time of sale. The DOR uses arm's-length sales and selected additional property appraisals to determine if the assessed values within a property class and within an assessor area accurately reflect the actual value of the properties. If the Department determines that, within a specified level of required accuracy, the values in a class within an assessor area are not appropriate, the Department issues an equalization order to the relevant assessor for that property class. The order requires the assessor to raise or lower the total assessed property value for that class in a manner that alleviates the condition that resulted in the equalization order. The equalization process ensures that the aggregate value assigned to commercial, residential, and agricultural property in each assessor district does in fact equal the actual value of the property.

Industrial property is not subject to formal equalization, so there is no overriding authority to ensure that the value assigned to all industrial property in an assessor area does in fact equal the total value of all industrial property within that assessor area.

### **Assumptions**

Due to salary increases and inflation, the annual operating costs of the PAAB are expected to increase from the current \$906,000, to \$1.0 million by FY 2022.

The remaining portions of the Bill relate to the assessment process, the assessment appeals process, and the burden of proof in property assessment appeal matters. The fiscal impact of those changes on local government finance and the State General Fund appropriation for school aid cannot be estimated. The potential fiscal issues are discussed below.

### **Fiscal Impact**

Removing the future sunset date for the PAAB is projected to increase General Fund expenditures by approximately \$1.0 million annually, beginning FY 2022. The expenditure increase is due to the continued operation of the PAAB beyond its current sunset date.

The Bill has two additional potential fiscal impacts:

- Local assessors will be required to pay a percentage of the taxpayer's costs associated with an appeal to the PAAB or the district court in certain instances where the assessed value of the property is lowered by the PAAB or the district court. This provision could increase the costs to operate an assessor's office and properly defend assessments. The costs of an assessor's office are paid through a property tax levy on taxed property located within the assessor area.
- Several provisions of the Bill have the cumulative effect of reducing the assessed value of individual properties by doing the following:
  - Increasing the cost to the assessor's office of defending appealed assessments.
  - Increasing the public voting power of conference boards.
  - Shifting the initial burden of proof from the property owner or taxpayer to the assessor.
  - Allowing additional grounds for revaluation of individual properties in even-numbered years.

The combination of these four changes can be assumed to result in the increased likelihood of a successful assessment challenge, and that in turn can be assumed to result in more property owners protesting their assessment and more property owners with successful assessment reductions.

The initial fiscal impact of a successful assessment challenge is reduced assessed value, reduced taxed value, and reduced property taxes owed for that particular property. However, for those classes of property subject to formal equalization, the assessed value reduction realized on individual properties is replaced by increased assessed value on all properties within the class. Therefore, the overall assessed value, taxable value, and property taxes owed for each class of property within the assessor area may not change.

The industrial class of property is not subject to formal equalization, so successful challenges to the assessed value of individual properties within that class may result in an overall decrease in taxable value, and that in turn could result in reduced property taxes owed on industrial property.

### **Sources**

Department of Revenue  
Property Assessment Appeal Board

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/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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